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REPORT

ON

OVERSEAS REAL PROPERTY MANAGEMENT

THIRTY-FIFTH REPORT

BY THE

COMMITTEE ON GOVERNMENT OPERATIONS

OCTOBER 2, 1978.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

House of Representatives,
Washington, D.C., October 2, 1978.

Hon. Thomas P. O'Neill, Jr.,
Speaker of the House of Representatives,
Washington, D.C.

Dear Mr. Speaker: By direction of the Committee on Government Operations, I submit herewith the committee's 35th report to the 95th Congress. The committee's report is based on a study made by its Legislation and National Security Subcommittee.

Jack Brooks, *Chairman.*

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REPORT ON OVERSEAS REAL PROPERTY MANAGEMENT

OCTOBER 2, 1978.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BROOKS, from the Committee on Government Operations, submitted the following

THIRTY-FIFTH REPORT

BASED ON A STUDY BY THE LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE

On September 27, 1978, the Committee on Government Operations approved and adopted a report entitled "Overseas Real Property Management." The chairman was directed to transmit a copy to the Speaker of the House.

I. SUMMARY

This review of overseas real property management of the Department of State and U.S. diplomatic missions is part of a continuing study by the Subcommittee on Legislation and National Security of the operations of the Department of State, the other foreign affairs agencies, and the U.S. diplomatic missions located throughout the world. The report is the result of five hearings held overseas over the course of the past 2 years examining the management and administration of our embassies located in England, France, Ecuador, Peru, and Brazil, and two hearings held in Washington with representatives of the Department to discuss selected management and administrative issues.[1]

[1] "United States Embassy Operations—London", hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 1st Sess., Nov. 11, 1977. "United States Embassy Operations—Paris", hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 1st Sess., Nov. 8, 1977. "United States Embassy Operations—Quito", hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 2nd Sess., Mar. 28, 1978. "United States Embassy Operations—Lima", hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 2nd Sess., Mar. 30, 1978. "United States Embassy Operations—Brazil", hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 2nd Sess., April 1, 1978. "Administration of U.S. Embassies Abroad," hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 95th Cong., 2nd Sess., July 12 and 13, 1978.

This report discusses only real property management and related issues, and does not attempt to address the many other management and administrative issues of concern to the committee. In examining the various management and administrative issues facing the Department and our diplomatic missions, we have found that many factors must be taken into account. Before making recommendations for improvements, the committee wants to take into account all of the competing interests involved and fully consider the views of the various interested parties.

The examination of the real property management and related issues did not reveal the same kind of complexity. There is general agreement as to what the problems are and the committee does not believe that they require vastly complicated solutions. In addition, the Department of State, in recognizing problems do exist, is attempting to move aggressively to improve real property management. This report will give the Department an opportunity to consider the committee's views as it continues to address problem areas.

The views of the committee not only reflect the testimony received from the various departmental witnesses, Ambassadors, Chargés, Deputy Chiefs of Mission, and Administrative Counselors, but they reflect the information provided the subcommittee by additional embassy employees of the Department of State and other U.S. Government agencies during the various subcommittee inspections. The opportunity to discuss real management and related issues with embassy officials and employees and to review embassy facilities and housing greatly contributed to the subcommittee's understanding of the problems which exist.

The committee has also drawn upon the excellent work of the General Accounting Office which reviewed real property management within the Department.[2]

While primarily focusing on activities of the Department of State, the review of real property management also encompassed the activities of the various Government agencies located at the embassies. The views of these other agencies have been taken into account.

II. Introduction

The Secretary of State was granted authority by the Foreign Service Building Act of 1926 to acquire, construct, sell, maintain, and operate buildings abroad for U.S. diplomatic and consular establishments and the representatives of U.S. Government agencies. This responsibility has been delegated to the Director of the Office of Foreign Buildings (FBO), who serves as a Deputy Assistant Secretary under the direction of the Assistant Secretary for Administration.

The Department is responsible for providing the office space for all Government agencies on a reimbursable basis, except for AID, which utilizes Department of State facilities in some countries. In addition, the Department is responsible for providing housing for all chiefs of missions of other U.S. Government agencies, except AID. All other employees of other agencies, except AID, either receive housing allowances from their own agencies or have Department of State providing housing, the cost of which is reimbursed to the Department. AID is responsible for providing housing or housing allowances for its

[2] "The Department of State Has Continuing Problems in Managing Real Estate Overseas," GAO report dated July 12, 1978.

employees. The Department of State is, of course, also responsible for providing housing or housing allowances for its overseas employees. The Department has 4,150 Americans working overseas, and the other 26 U.S. Government agencies with representation abroad have 17,990 Americans stationed in diplomatic missions.

The Department of State owns or leases property in 215 cities located in 135 countries around the world. The 262 office buildings and 303 utility buildings are warehouse owned or leased by the Government and maintained by the Department are valued at $2.8 billion. In addition, the Government owns about 2,900 residential units for diplomatic personnel which were originally purchased at a cost of $184 million. The Department also spends around $30 million annually leasing 3,540 residential units for American diplomatic employees, and spends an additional $7 million annually for employee housing allowances. (These figures do not include owned or leased property maintained by other agencies.)

Responsibility for management of Department of State employee housing overseas is presently shared by the overseas posts, the five Department geographic bureaus, and the Office of Foreign Buildings (FBO). FBO is responsible for funding and managing long-termed leased (10 years or more) and Government-owned property, while the geographic bureaus are responsible for the funding of short-term leased properties (less than 10 years). The overseas posts have been delegated responsibility for approving short-term leased properties which cost under $25,000 annually and FBO is responsible for approving those in excess of $25,000 annually. Effective October 1, 1978, FBO will be responsible for the entire real estate property program of the Department.

The heads of the overseas missions are responsible for enforcing regulations concerning allocation of space, operating and maintaining properties within the funds allocated, and recommending needed improvements to properties. The principal officer is also responsible for identifying all property which is in excess of the needs of the post and requesting disposition instructions from FBO.

At the present time no worldwide policy exists as to how U.S. Government employees should be housed overseas. With respect to Department of State employees, each post establishes its own housing policy in conjunction with the policies of its geographic bureau and generally allows personnel to select property that suits their needs. The posts in Africa use short-term leases for employees who are not provided with Government-owned or long-term leased properties and no housing allowances are provided. In Europe, Government-leased quarters are provided for most top-level employees, and housing allowances are given to lower grade employees. (Paris follows this practice, London does not—virtually all U.S. employees in London are housed in Government-leased quarters.) In Latin American posts senior employees with representational responsibilities are provided with Government-owned or leased properties, and other employees receive housing allowances. The posts in East Asia and Near East Asia use a combination of these plans. Moreover, there is no uniform policy within the Department of State or among the various agencies as to whether it is more economical to have an employee ship his own household effects or to have the Government provide fully furnished quarters.

The Foreign Affairs Manual also requires every foreign service post where several U.S. Government agencies are present to establish a housing board to deal with inter-agency housing issues.

The Department of State designates two categories of maintenance and repair work to properties: (1) routine maintenance, which is the "normal run of the mill" work necessary to preserve or restore a property, and (2) special maintenance, which is not routine. Major repair projects have no funding limitations, but are normally handled as special maintenance and require FBO approval. Most maintenance repair on FBO properties is classified as routine. In fiscal year 1978, the Department estimated it would spend $11 million for maintenance and repair of owned or long-term leased properties and $3 million for short-term leased properties.

To carry out its responsibilities, FBO has a staff of 95, only 22 of whom are stationed overseas. Of the 71 employees in Washington, 17 are professional technicians. FBO does not perform the actual construction in the field but depends on contractors and the overseas mission maintenance staff to undertake specific projects and to maintain and repair properties.

Since 1926, FBO has been authorized approximately $853.3 million and appropriated about $807 million, of which $128 million was in foreign currencies. A total of $110.6 million was appropriated for 1978, of which $7.5 million is in excess foreign currencies. A significant portion of FBO's funding for capital projects comes from proceeds of property sales, which have totaled nearly $122 million since 1926. For a 10-year period from 1968 to 1977, only four capital projects totaling $19 million were funded through appropriations. The rest of the $81 million for capital programs was derived from proceeds of sale. The Department received a $10 million supplemental appropriation for fiscal year 1978 to accelerate the purchase of residences in areas of spiraling rent increases. Both the Senate and House Appropriations Committees have approved appropriations of $16 million for continuation of this program in fiscal year 1979, and the Department plans to ask for $10 million for fiscal year 1980.

The Department estimates that it would take $150 million to $200 million to acquire the residential property it now leases which economic analysis indicates would be in the best interest of the Government to purchase. FBO is presently able to fill about 40 percent of the funding requests of overseas posts for acquisition or lease of property. The Department also estimates that following the identification of a need, a leadtime of 16 months is necessary to begin construction of a capital project or purchase real estate.

III. Findings

1. The U.S. Government's overseas real property has not been economically or efficiently managed by the Department of State.

2. A contributing cause of the poor management has been the decentralization of real estate management responsibilities throughout the Department of State.

3. The Department's long-range planning has been seriously deficient and has allowed external pressures to unduly influence development of sound real property programs.

4. The Department has not properly used existing sources of information to make sound management decisions, leading to the most cost

effective alternative for satisfying the real estate requirements of our overseas posts.

5. The Department does not have sufficient personnel with the necessary technical expertise to properly acquire, construct, maintain and manage our overseas real property.

6. The Department has had insufficient funding to meet the overseas real property needs of the Government in a timely fashion.

7. Differences in housing and housing support employees receive generally depends on which U.S. Government agency they work for or historical accident.

IV. Recommendations

1. The Department of State should continue to centralize the management of overseas property within the Office of Foreign Buildings.

2. The Office of Foreign Buildings should continue to develop accurate construction cost and reliable economic and other relevant data which is necessary for the development of accurate long-range plans.

3. The Office of Management and Budget should develop a formula for determining whether it is in the best economic interest of the U.S. Government to lease or purchase property at our overseas posts and all Government agencies operating overseas should be directed by OMB to use this formula.

4. The Department of State should present to the Congress and the Office of Management and Budget a plan not later than January 1, 1979, as to how it proposes to staff the Office of Foreign Buildings on a long-term basis so that FBO has sufficient technical expertise to handle real estate needs of posts worldwide. In addition, the Department should present to the Congress a listing of those positions in the geographic bureaus which will be transferred to FBO to handle the newly assigned responsibilities.

5. The Department of State should establish a timetable for implementing a reliable management information system which will meet the Department's needs on a worldwide basis within the next 2 years.

6. The Department of State should consider requesting from the Congress full funding of capital projects and should inform the committee how such a program should be implemented.

7. The Department of State should report to the committee not later than June 30, 1979, on how it believes a capital fund for property acquisition should be structured on an experimental basis and the procedures which will be used in managing the fund and keeping the appropriate committees of the Congress fully informed on the decisions to use the fund.

8. The Department of State and the Office of Management and Budget should insure that there is uniformity of housing and housing support for employees of all U.S. Government agencies stationed at embassies.

9. Once FBO demonstrates its ability to manage properly the overseas real estate of the Department of State, consideration should be given to placing with it additional responsibilities for managing overseas real estate of other U.S. Government agencies.

V. Discussion of Office of Foreign Buildings

It is virtually the unanimous opinion of ambassadors and administrative personnel at our overseas missions and those in the De-

partment of State responsible for overseeing its operations, that the Office of Foreign Buildings (FBO) has been unable to adequately meet the real estate management needs of the Department. The primary reasons for this have been the decentralization of real estate management responsibilities throughout the Department, the lack of long-range real estate planning, the inability to develop adequate economic and cost information, the inadequate number of technically qualified personnel, and inadequate funding.

Decentralized management of overseas real estate

Responsibility for managing Department of State employee housing overseas is split between the overseas posts, the geographic bureaus, and FBO. At the present time, FBO is responsible for funding construction or acquisition of real property and leases running for more than 10 years, and approving leases running for less than 10 years, but which have annual rents in excess of $25,000. The geographic bureaus are responsible for funding leases running less than 10 years, and approval for those costing less than $25,000 annually has been delegated to the overseas posts.

There is no centralized uniform housing policy which has resulted in a failure to develop either at FBO or the overseas posts adequate criteria for the size and cost of housing or for centralized review of housing alternatives. GAO found that the net effect has been that the U.S. Government is paying needlessly higher housing costs because employees are provided with housing that exceeds reasonable space standards and housing allowances.

While FBO has established space guidelines for the construction of new housing, it has not done so for leased housing. This void has not been filled by the geographic bureaus. Each post has been left to its own devices to develop housing criteria, and, generally, according to GAO, posts allow personnel to select property that suits their needs.

Because of FBO's personnel and funding problems and its poor reputation, embassy administrative personnel admitted to the subcommittee they try to avoid having to deal with it. Our review of housing leases at posts throughout the world shows that rather than making a lease for a 10-year period, and having to get FBO approval, embassies will enter into leases for 9 years and 11 months. In many instances, rather than entering into a long-term lease, a post will enter into successive short-term leases.

Not only has this division of responsibility and funding control led to the selection of housing which may not be in the best economic interest of the Government, this division could allow a bureau to be funding projects of low priority at a time when FBO cannot fund a project of a higher priority because it doesn't have sufficient money.

The Department recognizes the need to centralize management of overseas housing and, effective October 1, 1978, FBO will have management and funding responsibility for all owned and leased housing. FBO is planning to develop uniform criteria for reviewing and approving all lease proposals and will review present leases to insure conformity with applicable standards.

If FBO can ever be expected to adequately manage the overseas real property program of the Department, it must have full responsibility for that program. The decision by the Department represents an important first step toward improving real estate management. However, if this move is not accompanied by other improvements recom-

mended elsewhere in the report, it will actually represent a step backward since FBO will not be able to adequately handle its new responsibilities.

Lack of long-range management planning

According to GAO, FBO has no systematic method, specific criteria, or policies for determining the most economical housing alternatives which satisfy the Department of State's overseas needs. Primary responsibility for identifying real estate needs and solutions has been placed on senior personnel who generally are not qualified and have no experience in the real estate or construction fields.

Part of the problem has been the decentralized management of real estate among overseas posts, the regional bureaus, and FBO. Their efforts were never fully coordinated. Embassies were unable to develop long range real estate plans, even though they recognized the desirability of doing so, primarily because they have neither the staff resources or expertise. The result at many posts has been that a new real estate program is undertaken upon the arrival of the new ambassador or top administrative officer. As noted previously, FBO will now have total responsibility and funding authority for all real estate projects as of October 1, 1978.

The failure to institute long-range planning has on occasion allowed senior officials and ambassadors to interfere with real estate programs to satisfy personal desires. For example, in Seoul, South Korea, FBO budgeted $50,000 to rehabilitate the Embassy residence in fiscal year 1976. However, before the project was completed $1.1 million was spent for a complete restoration—including having much of the wood structure custom reproduced by local architects and craftsmen. This was done, according to FBO, at the insistence of the Ambassador.

FBO real estate planning is done by headquarters personnel responsible for the five world regions corresponding to the Department's geographic bureaus. Each area officer determines which projects should be undertaken in that region and assigns a priority to each project. Five year project forecasts are made each year based on data obtained from the geographic bureau and the particular post. FBO does not now have adequate staffing to allow systematic onsite reviews. According to GAO, the 5-year plans are independent yearly exercises not related to the previous or following year's projects. A project which ranks high one year may not appear on the priority list the next year even though the project was not constructed or acquired. In 1977, FBO began using a numerical priority rating system for its projects based on such factors as morale, health, safety and political expediency.

GAO recommended that FBO be responsible for developing country-by-country real estate plans and the Department has begun such a program, with approximately 15 country real estate programs having been developed so far.

The committee does not believe that placing primary reliance on post personnel to identify real estate needs and solutions can be justified. Such personnel generally do not have the necessary background to adequately undertake such responsibility. Since FBO has the technical expertise necessary to undertake long range planning it should take the lead role. While FBO should work in conjunction with the

various posts and regional bureaus to identify needs and programs, it must not wait for a post to identify real estate needs or request FBO to develop a program for it. FBO must systematically devise programs for all posts. Moreover, it is not enough to develop a country real estate plan.

FBO must have a priority system for all real estate projects throughout the world. Unless FBO has such master plans, it is unreasonable to expect that individual post needs will be dealt with on an equitable basis in the most cost effective manner.

The committee does not believe it is too much to expect FBO to have a master plan which shows how much, where, and in what priority, property should be acquired or leased. This information is absolutely essential if the Department, the Office of Management and Budget and the Congress are to be able to determine what needs exist and how to go about meeting those needs. While the committee believes it is important for the priority rating system to include noneconomic factors such as morale, health and safety, it is important for decision-makers to have access to a priority rating based solely on economic considerations since the other factors tend to be subject to differing opinions.

FBO should be able to provide specialized technical service to posts regarding construction, acquisition or maintenance of property without having to deal with external pressures from senior post personnel who may be interested in satisfying personal desires. The development of coherent long range real estate plans will greatly reduce the opportunity for these outside pressures adversely affecting sound real estate management decisions.

During the subcommittee review of the five overseas missions, the feeling existed on the part of administrative and other embassy personnel that they could handle real estate needs better and more swiftly than FBO. The subcommittee discussed real estate matters with a number of officials who exhibited a high degree of knowledge concerning real estate management, and who are doing a fine job in this area. Nonetheless, because not all responsible overseas officials have such experience, FBO must be the central repository for real estate management expertise so that all posts overseas can rely on such knowledge. As is discussed later, the committee is concerned over the lack of sufficient technically qualified employees in FBO. As FBO is able to increase the number and quality of technical experts, overseas personnel will feel less of a need to substitute their judgment for that of FBO personnel.

The Department recognizes that outside pressure can unduly influence real estate programs and has informed posts that although FBO will draw heavily on input from the posts in determining the size and character of buildings, FBO has the final authority and posts are not authorized to alter plans. Any change in plans must be approved by the Director of FBO and only when conditions change significantly. We believe such policy must be strongly enforced.

Development of valid economic data

If FBO is to have an effective long range planning capability it must be able to develop adequate economic analyses to support its planning objectives. The committee is concerned over the Department's failure to use existing sources of information to develop sound economic anal-

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yses. Without sound economic data which is kept accurate and current the U.S. Government will not be able to make the best use of its housing dollar.

GAO pointed out in its report that the Department's longstanding policy of leasing residential housing overseas is not always the most cost efficient or in the best interest of the U.S. Government in many parts of the world where rents escalate far beyond inflation rates. For example, in Algeria the Department pays the equivalent of $60,000 annually to lease a staff residence. In Brazil the subcommittee found that rents have been escalating at an annual rate of 40 percent recently, GAO said part of the problem has been that housing cost-benefit analysis have not been conducted to determine whether it is least costly to utilize housing allowances, leased housing or owned housing even though this should have the greatest influence in determining how housing will be provided. GAO said when plans are proposed to construct or purchase housing to offset rising leasing costs, they are often not backed up with cost-benefit analyses partly because posts do not have this expertise.

FBO has been developing an economic formula, termed the present value analysis, to determine whether it is in the best interest of the U.S. Government to purchase rather than lease property. However, when the Department asked all missions to supply for inclusion in the fiscal year 1978 supplemental acquisition program a list of residential properties now leased which should be purchased, the Department did not ask them to supply data which would be plugged into the present value analysis formula. Rather it asked each post to indicate which properties should be acquired on the basis of a 12 year or less amortization. The Department did not possess the ability at that time to analyze the information at FBO in a timely fashion, and therefore had no choice but to proceed in that manner. However, the Department cannot depend on the accuracy of economic analyses emanating from the overseas posts.

When examining the Paris embassy housing policy the subcommittee was told that it would be uneconomical to begin an acquisition program, even though housing allowances had increased over a seven year period from 83 to 169 percent. Embassy officials said French tax laws discourage the sale of property and acquisition costs are therefore 25 times annual rent. However, though the embassy indicated it would be to the economic advantage of the Government to lease rather than purchase, it proposed that the Department purchase three houses for military attachés at a cost of $300,000 to fi500,000 each. The subcommittee found such a recommendation in light of the purported economic situation to be unjustified. At Chairman Brook's insistence, the Office of Management and Budget directed the Department to eliminate this request from its budget proposal. State Department officials in Washington have examined the Paris economic situation and found that utilizing proper economic cost-benefit analyses, the amortization period was about half that estimated by the embassy.

The committee believes this example illustrates the need for FBO to have a sound cost benefit analysis.

GAO was critical of FBO's estimates of capital project costs prepared for budget and Congressional justifications, funding them to be seriously understated. The poor cost estimating led to project

delays or deletions because the resulting cost overruns left FBO without sufficient funds to complete or begin a scheduled project. These deletions and delays cost the taxpayers millions of dollars. For 11 capital projects GAO examined, cost overruns totaled some $25 million or 103 percent of the original cost estimates, with some overruns ranging up to 195 percent. The reasons for this outrageously poor record are: (1) FBO has been unable to employ a qualified cost estimator. (2). The information used to make the cost estimates was inaccurate and was out of date.

The subcommittee was surprised to learn that FBO has not attempted to use the expertise of economic or commercial officers stationed in overseas missions to obtain local construction costs, inflation estimates and other relevant data. This information should be easily obtainable from these officers at posts abroad.

There is general agreement among overseas embassy officials that the U.S. Government has not followed a wise real estate policy—that when it does purchase, it purchases too little, too late. Merely using the existing expertise of economic and commerical officers to determine costs and forecast economic housing trends in foreign nations should allow the Department to have a better idea of what the real estate situation is or is likely to be in a given country.

The Department is acutely aware of the problems it has had in making valid economic assessments and construction cost estimates overseas. It has hired an experienced cost estimator which should drastically improve cost estimating within the Department. FBO has also begun to utilize the economic and commercial officers located overseas to a greater extent to obtain accurate and up-to-date cost and economic data.

It is absolutely essential for the Department to be able to make accurate cost estimates and economic analysis of the real estate conditions in countries where the Department does have housing needs, if it is to address its real estate needs in a sound businesslike fashion. Moreover, the Department cannot expect OMB to approve budget requests and Congress to authorize and appropriate funds for real estate projects when the information provided to justify the project is not reliable.

FBO is not the only agency which utilizes an economic cost-benefit formula to determine whether the U.S. Government interest would be served by purchasing property, rather than leasing or providing housing allowances to employees. The Defense Intelligence Agency (DIA) also utilizes such a formula to determine how much and which Defense attaché staff housing should be purchased. Interestingly, the subcommittee found that the FBO and DIA formulas are not identical and that they make differing assumptions without any basis in fact for the difference. DIA assumes a 35-year useful life with no residual value, and FBO assumes a 20-year useful life with a residual value. FBO uses an annual discount rate of 7 percent: DIA uses a 10 percent rate. FBO assumes that lease payments will remain constant over the life of the property; DIA does not.

The committee wishes to make clear that it is critical of neither FBO nor DIA for the differences in the formulas they utilize. Both have

made good-faith efforts to devise the best possible formula to gage when the Government's interests are best served by purchasing rather than leasing property. The formula used by FBO is one approved by the Office of Management and Budget. And, after learning of the discrepancies between the formulas, the Department immediately started refining its present-value-analysis formula. The committee does not understand why it is necessary, however, for the U.S. Government to use different formulas designed to make the same determination: when it is in the Government's interest to purchase and when it is in the Government's interest to lease. Unless actual conditions dictate alterations in the assumptions made, all U.S. Government agencies should make this determination based on the same assumptions. We believe this is properly the role for OMB. The committee instructs OMB, therefore, to devise a single formula which reflects as accurately as possible existing real estate conditions that can be utilized by all U.S. Government agencies.

While the formulas all agencies use should be the same, the committee does believe that the same economic information can lead different agencies to different results. The Department of State generally believes that an amortization period of 12 years or less economically justifies the purchase of property, while AID believes that the period should be 5 years or less. This difference recognizes that AID is likely to stay in any given location for a brief period of time, whereas the Department of State is likely to be in a given location on a relatively permanent basis.

Staffing problems

Many of the problems FBO has experienced can be directly attributed to the lack of an adequate number of technical professionals. Irrespective of how many management improvements are made—reliable long-range planning, accurate economic analysis, adequate management information systems, centralization of responsibility—or how much funding is obtained, without adequate staffing with sufficient expertise, FBO will never be in a position to properly manage the U.S. Government's overseas real property.

Overseas the subcommittee heard numerous examples of lost opportunities for purchasing needed real estate. Embassy officials indicate that it took as long as 3 years to obtain approval to acquire property. The Embassy in Quito has proposed that the U.S. Government purchase the Consul General residence in Guayaquil for the past several years. While a final decision is yet to be made—FBO initially placed the residence in its 1976 program—the fair market value of the residence has increased by about $150,000 according to Embassy estimates. Where a need exists to acquire property, the U.S. Government must be able to respond quickly. Because of the inflationary environment which exists virtually throughout the world the long delays in acquiring property place the U.S. Government at an untenable competitive disadvantage to others who are in the real estate market.

The committee does not doubt that a major contributing factor has been the inability of the Department to obtain sufficient funds to meet its real property needs. However, this is certainly not the only reason. The subcommittee was told that there was not one year which GAO

examined in which FBO was able to acquire or begin construction of even 50 percent of those capital projects for which funding was received that year. The committee finds such a circumstance intolerable. We do not believe that the Department should recklessly attempt to spend its capital project appropriation merely to say that it was spent in that year or to justify additional appropriations in future fiscal years as some agencies have the unfortunate tendency to do. However, while we recognize practical circumstances realistically prevent FBO from spending all of its capital project funds in the year of the appropriation, FBO should have a plan which allows projects to be started and acquisitions made as soon after the money is appropriated as possible. The Department should furnish the committee with a proposal detailing how it specifically plans to improve its record in this regard.

In 1960, as a result of personnel reductions, FBO was forced to close regional field offices. There is no question that this has had an adverse impact on the ability of FBO to adequately respond to real estate problems. Posts which generally lack real estate expertise cannot obtain expert advice from FBO on a timely basis. Only 17 of the 71 personnel assigned to FBO's Washington office are technical professionals. There is simply insufficient staff to allow experts to spend adequate time at a post in developing solutions to real estate needs. GAO recommended that not only should FBO strengthen the technical expertise of its staff, but that the Department should reestablish the regional field offices, staffed by technical experts who would keep abreast of individual post real estate needs.

The Department has taken a number of steps to enable FBO to respond more quickly to post real estate needs. First, it has made a number of management improvements designed to reduce FBO's response time to post requests. Second, it has placed more staff on the operational side of FBO so more of the staff have direct contact with overseas posts. And it has established a program whereby FBO works in conjunction with the posts to analyze housing needs and to develop a plan to meet those needs. Finally, foreign service officers with field experience are being used to staff FBO. All of these improvements have begun to show results.

Importantly, the Department is about to take steps to improve the level of staffing within FBO. It has requested an additional 10 positions for FBO in its fiscal year 1980 budget so the number of technical experts can be increased. And, five positions have been requested to initiate the reestablishment of the regional field offices.

The committee recognizes that the Department is coming under severe personnel constraints which are imposed both by the Department under internal measures and the Office of Management and Budget. However, the Department cannot afford to allow poor real property management to continue merely because of inadequate staffing. Any savings which may be realized through staff reductions in FBO will be merely illusory since the staff shortages will lead to needlessly higher costs in providing for the real property needs of the Department. The committee does not believe that reestablishment of the regional field offices is the central question. What is important is that FBO have sufficient numbers of technical experts—located either

in Washington or in the field—who can respond swiftly to post real property problems and can keep informed on post property needs. We are less concerned with where they are located than that posts have ready access to this expertise. The decision of where they are located should be determined by whether it is cheaper to have these experts operate out of Washington or in regional offices.

The committee fully appreciates that the Department is aware problems in real property management exist, and has taken a number of concrete actions to deal with them. However, unless the Department makes a commitment to adequately staff FBO, problems will continue to exist. The Department has promised to make improvements in its management of real property in the past, the committee notes but has not fulfilled its promises.

Unless FBO is sufficiently staffed to manage the departmental real property in a businesslike manner, the committee will seriously consider having this responsibility placed with an agency that can perform this responsibility. With adequate staffing we are confident the Department can do the job.

The Department, therefore, should present a proposal to the Congress and OMB as expeditiously as possible, and not later than January 1, 1979, showing how it plans to staff FBO on a long-term basis so it will have FBO has sufficient technical expertise to handle real estate needs of posts worldwide. In addition, since FBO will be given responsibility for funding and management of short-term leases, the Department should present to the Congress a listing of those positions in the geographic bureaus which will be transferred to FBO to handle these new responsibilities.

Inadequate property maintenance

The committee is concerned with GAO's finding that FBO-owned and long-term leased properties are not being properly managed and maintained. GAO blamed the problem on (1) a lack of technically qualified personnel to make inspections, (2) weak maintenance criteria and priorities, and (3) seriously deficient information used by both post and FBO managers. The subcommittee found that there seems to be no uniform approach to property maintenance, and that the major factor appears to be the attitude of the administrative personnel at posts. The subcommittee found in Brasilia that the Embassy had been without any kind of property inventory for several years simply out of neglect. We were told that this is not an isolated problem.

An important contributing cause has been the lack of a reliable management information system within FBO. Managers are unable to readily determine, for instance, how much it costs to operate a particular building. GAO found that FBO's property books—the present management system—are not reliable and reflected an overall error rate of about 20 percent.

Proper maintenance and the development of an adequate information system to determine operating costs is absolutely essential to good real property management. Otherwise, maintenance and repair funds are spent to rehabilitate deteriorated properties, maintenance costs escalate, unit property values diminish, and funds are used to operate and maintain uneconomical buildings.

The Department recognizes the need to improve maintenance criteria and its property information system, and has taken corrective action. For example, a new maintenance handbook is being printed for distribution to posts. However, as GAO pointed out in its report, the Department promised several years ago to implement a reliable information system, but has not done so.

The Department should, therefore, establish a timetable for implementing such a management information system which will meet the Department's needs on a worldwide basis within the next 2 years.

Lack of adequate funding

The committee recognizes that a necessary element to the development of businesslike management by FBO, is the appropriation of funds sufficient to cover the major real property needs of the Department. In the past, much of the funding for capital projects has come from the sale of excess property. Over a 10-year period only four projects totaling $19 million were funded out of congressional appropriations while $81 million in projects were funded through proceeds of property sales.

GAO concluded that the Department has relied too heavily on a policy of using short-term leases to meet its real property needs. The result has been that the U.S. Government has spent more money to meet the Department's housing needs than it should. There is little question that such a policy has been forced upon the Department. And there is no disagreement within the Department that purchasing housing in most areas of the world present the best economic alternative for the U.S. Government because of spiraling inflation.

If $20 million a year is invested in acquiring property for 5 years, assuming the rents on the buildings which would be terminated amount to 10 percent of the purchase price—and in many areas because of inflation it will amount to much more than that—the total investment would be recaptured over a 12-year period in reduced rental payments.

The Department estimates that it can meet only 40 percent of the real property requests of the posts worldwide, but with sufficient funds, as much as $200 million worth of property could be acquired to the economic advantage of the U.S. Government.

The committee believes that at the present time there is appropriate recognition within the Congress for the need to place greater emphasis on purchasing rather than leasing property. Under the leadership of Congressman Dante Fascell, chairman of the House Subcommittee on International Operations, the Department received a supplemental appropriation of $10 million for the acquisition of residential property in areas of spiraling inflation during fiscal year 1978. Both the House and Senate Appropriations Committees have approved $16 million for continuation of this program in fiscal year 1979, and the Department plans to request $10 million for fiscal year 1980. However, even if all this money is actually spent, it will cover only about 20 percent of those properties that it would clearly be to the economic advantage of the United States to acquire.

The committee believes that the program to purchase property in areas of rapid inflation should be expanded. While rental

of property may be a way of artifically reducing budgetary obligations; continuation of such a policy clearly creates substantially greater budgetary obligations in the long run. The committee wishes to be informed whenever the Department submits a budget request to OMB for funds to accelerate the purchase of property overseas and is turned down by OMB in full or in part. The committee will also require OMB to furnish a justification for such action.

The committee recognizes that while moving to ownership of overseas real estate can bring substantial savings to the U.S. Government, such savings may not actually accrue to the Government. The Department of State should be required to demonstrate that it has the ability to undertake such a program which will in fact save money. We believe the Department can demonstrate this ability only if it makes the management improvements recommended in this report and maintains adequate staffing in FBO. The Congress—after FBO has made many of the improvements recommended—should be prepared to increase funding for the purchase of property on an incremental basis. This will enable the Congress to evaluate FBO's ability, to make accurate construction cost estimates, use valid economic data to determine where the priorities should be for acquiring properties, and properly maintain property.

Because of the lack of appropriated funds for the acquisition of property, FBO was forced to finance its capital program through the proceeds of sale of real property. For example, a few years ago FBO sold the U.S. embassy in Tokyo, which cost $1 million, for $51.3 million, built a new embassy for $16 million and used the remaining $35 million to finance needed capital projects elsewhere. While this was probably a wise move, the Department really had very little choice. However, we believe that as Congress appropriates more funds for capital projects, FBO should rely less and less on proceeds of sales.

We believe any policy imposed on FBO by the Department, OMB, or the Congress to dispose of property merely because there are no immediate plans for use of that property, without due regard for financial considerations, is unwise. Whether we like it or not, with a $3 billion property inventory and an annual budget in excess of $100 million a year FBO is in the real estate business. While FBO should direct its energies solely to meeting existing and future needs, it should operate in a sound businesslike way. Property should be disposed of only when it is reasonably certain that the Government has no future use for that property.

GAO also recommended that FBO consider asking Congress for appropriations that will cover the full cost of an entire capital project. At present, the Department makes separate budget requests for each stage of a project. GAO believes a full cost appropriation would save substantial sums of money by compressing the time it takes to complete a capital project.

The committee agrees that alternatives for reducing the time necessary to complete construction or acquisition of property must be explored. Because of the nature of the authorization and appropriation process at least 16 months are required for the Department to obtain funding for a project following the identification of a need. Because delays in obtaining funding approval only result in additional costs, we believe this leadtime can and should be reduced.

We believe that full-funding may be one viable alternative. We recognize that for the first several years, full funding would require substantial increases in capital project appropriations. FBO estimated, for example, that for its fiscal year 1979 program of $50 million, full funding would have required an additional $79 million. Full funding will allow the Congress to know within reasonable tolerances what a major construction project will cost.

In addition, we believe that serious consideration should be given to an appropriated capital fund. This should substantially reduce required lead times. Justification for the funds would, of course, have to be made to the appropriate committees of the Congress. We believe that the development of the capital fund concept should take place on an experimental basis which will allow the appropriate committees to monitor the success of the program.

Because the State Department has had a poor track record in real property management, FBO must be able to demonstrate it will be able to responsibly handle a capital fund. However, because such a system could potentially save substantial sums of money, we believe FBO should be given the opportunity.

The Department of State should provide the committee with a study no later than June 30, 1979, indicating how it proposes to structure such a capital fund on an experimental basis and the procedures it will use in managing the fund.

VI. Lack of Uniformity and Consistency in Housing Practices

The subcommittee was surprised to learn that there is little consistency or uniformity in terms of housing or housing support that U.S. Government employees stationed overseas in embassies can expect. Not only are employees of different agencies stationed in the same area not necessarily given similar housing or housing support, but no uniformity of practices exists from post to post either for Department of State employees or those of other agencies.

The disparity in housing practices from post to post within the Department can be largely attributed to the present decentralized management of housing. Since the geographic bureaus may have different priorities and funding capabilities they may have inconsistent housing practices. Moreover, since the major responsibility for housing management and the establishment of guidelines rests at present with overseas posts, much depends on the attitude and knowledge of the principal administrative officer. To illustrate, under present practice, FBO is responsible for furnishing all owned and long-term leased properties. Furnishings for short-term leased quarters are funded out of the Department's salaries and expenses account through the geographic bureaus. Whether or not an employee can get a balky refrigerator replaced or obtain a room air-conditioner may depend solely on whether or not the house is owned or a short-term leased property. Moreover, it may depend on whether the administrative officer in charge believes that a refrigerator should last 5 years, 6 years, or whatever. In some instances problems may arise simply because

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it is not clear who is responsible for providing what items out of which account.

The lack of uniform policies and practices on an across-the-board basis for all agencies can be attributed to disparate statutory authorities, differing funding capabilities, and differing agency policies with respect to what overseas employees are entitled to. For example, only the Department of State and AID can own civilian housing overseas. Other agencies must go through the Department of State. The Department will request appropriations for a residence on a direct reimbursable basis. Moreover, some agencies have a separate budget account out of which such expenses are covered, others fund these expenses out of program accounts. Finally, AID policies on what support employees are entitled to have been changed within the past 2 years so that AID employees receive less support. This change is part of an effort by AID to insure that its employees are not living in a grandoise manner overseas.

The subcommittee was unable to detect, by and large, any rational basis for the differences which exist. The committee does not believe that merely because an employee works for one agency he should necessarily receive fewer (or more) benefits than an employee from another agency. Differences as to what employees receive should be reasonably related to differences in job responsibilities. The development of consistent and uniform policies and practices would further enable the U.S. Government to improve management of real property overseas. If embassy officials and employees are asked to comply with one set of rules and guidelines rather than a dozen, there is little doubt that the administration of such policies and guidelines would improve.

Regarding the lack of uniformity from post to post of housing and housing support within the Department of State, we believe that the consolidation of funding and management responsibility within FBO will result in increased consistency and uniformity. FBO will be able to establish guidelines for the kind of housing all employees will be entitled to and the amount of support they can expect to have. Such circumstances at which budget account is more plentiful at the end of a fiscal year should play no part in the level of support an employee receives. Since FBO will be forced to allot scarce appropriations to all overseas missions on an equitable basis, decisions regarding housing support should better reflect what employees need rather than what they want.

The committee is not suggesting the housing policies and practices be exactly uniform throughout the world. Differing conditions must, of course, be taken into account. However, the disparity in policies and practices must be rationally related to actual differences in local conditions. Justifications based on historical accident are not sufficient. The committee is concerned that overseas posts be treated equitably, and that a particular mission's political clout should not override economic considerations. Consolidation of responsibility within FBO should make this easier to accomplish.

With respect to interagency practices, we do not believe it is wise policy for the U.S. Government to encourage disparate standards. The Department of State presently has a mechanism to review the housing that employees of other agencies receive, since, in most instances, the

ambassador must formally approve leases or acquisition of property. However, the Department has no control over what housing support other agencies provide employees. Unfortunately, embassy officials many times do not use the existing mechanism to review housing proposals of employees of other agencies. Since the Department of State will be reimbursed by the employee's agency, embassy personnel are oftentimes not terribly concerned over whether housing exceeds reasonable standards.

We believe this is an unacceptable state of affairs. Department of State regulations concerning what housing employees are entitled to seem to be reasonable. We know of no reason why employees of other agencies should receive either more or less than Department of State employees. (We except from this observation the general policy of the Peace Corps to have volunteers live in a custom which will create local acceptance for their activities.) In this connection, the Department of State should review the amount of support Department of State employees receive to insure that not only does it meet their needs, but does not exceed their needs.

We recognize that enforcement by the Department of State of uniform standards will not resolve the statutory or funding disparities. We believe, therefore, that full consideration should be made to consolidating the responsibility over housing and housing support within the Department of State. Over the past few years, there has been a general movement toward the standardization of allowances for personnel of all U.S. Government agencies. An interagency committee composed of representatives of agencies with overseas employees has been operating for some time and has been working toward this end. *

The committee recognizes that some agencies may be opposed to consolidation of responsibility within the Department of State. Not only would they point to the Department's poor track record in real property management, but to problems agencies currently have in obtaining adequate administrative support in other areas from Department personnel in embassies.

The committee is concerned over the complaints of nonresponsiveness by Department administrative personnel to the needs of other agencies. The Department of State should make clear to embassy administrative personnel that they will be rated not only on the basis of how well service is provided to Department officials but to employees of other agencies as well. We believe that the Department should actively solicit the views of officials of other agencies concerning the adequacy of support they receive. The Department should insure that there is to be no de facto policy of treating Department officials better than officials of other agencies. Should other agencies have concerns that they are not being treated on a nondiscriminatory basis, they should present their concerns to Department management, OMB, and the Congress for proper resolution.

At a number of embassies, a multiagency housing program has already been established. In London, the subcommittee reviewed the multiagency housing program which included all agencies except the International Communications Agency.[3] Several methods are utilized

[3] We are concerned over ICA's refusal to join this program. OMB should direct the Department and ICA to come to an agreement which will bring ICA into the program.

to insure that employees of all agencies are treated on a nondiscriminatory basis. First, except for the residences of the Ambassador and Deputy Chief of Mission, no residences are designated for the employee of any particular agency. Housing assignments are made by the personnel office based only on the grade, job responsibility and family circumstances of the employee. An interagency housing board comprised of representatives of several agencies handle appeals from housing assignments or other disputes. Moreover, the Embassy follows a written housing policy which sets out precisely what employees can expect to receive and what they are responsible for themselves. This policy clearly establishes that employees of all agencies are treated on an equitable basis. Finally, the administrative counselor takes an active role in resolving disputes and fielding complaints concerning support which is or is not given. The subcommittee found that while employees of other agencies had complaints which resulted from staffing and funding limitations, administrative personnel were by and large able to deal with most problems and did in fact provide service on a nondiscriminatory basis.

In some instances the employees complained that embassy officials did not approve leases for a residence which the employees wanted to enter. This caused in some instances lengthy stays in a hotel for the employee and his family. Administrative personnel indicated that in all such instances the determination not to approve the lease was made by the interagency housing board and was necessary to insure that the housing employees receive did not exceed reasonable standards. Embassy officials indicated that the interagency housing board was instrumental in cutting down on complaints over inequities and enforcing uniform standards for employees of all agencies. We believe that the program established by the London Embassy can serve as a guideline as to how a fully integrated real property management program involving all U.S. Government agencies can and should operate.

In order to maximize the uniformity of overseas housing policies and practices of the various U.S. Government agencies, once FBO demonstrates its ability to manage properly the overseas real estate of the Department of State, consideration should be given to placing with it additional responsibilities for managing overseas real estate of other U.S. Government agencies.

The committee is also concerned that there is no uniform policy either within the Department of State or among the other agencies as to whether employees should ship their own household effects to the post at Government expense or the Government should provide furnished housing. AID has a policy of allowing employees only to make limited shipments of personal effects and providing U.S. Government-owned furniture. The Department of State policy will vary from post to post, with Government provided furniture being the exception. However, no economic studies exist on which method is more economical.

The subcommittee heard numerous horror stories of employee furniture being lost, destroyed, or severely damaged en route to posts. Shipping problems were a major concern of employees and administrative personnel alike. Embassy administrative officials overseas were

virtually unanimous in believing a policy of providing furniture to the employee would save the U.S. Government substantial sums of money in most instances through reductions in shipping costs.

Again, the committee believes there ought to be a uniform policy among all agencies with respect to having employees ship their own furniture or having the U.S. Government provide it. The subcommittee received a brief analysis from the administrative counselor in Brasalia which proved quite helpful. This analysis has been passed on to the Department, which has agreed to make an economic analysis of this area and report its findings to the subcommittee by January 1, 1979. We believe that deviations from a uniform policy should exist only when local circumstances clearly warrant. We do not believe, however, there would be any justification for agencies undertaking different policies within the same city. If necessary, the Office of Management and Budget should insure that all agencies engage in a constant policy which represents the best economic advantage to the U.S. Government.

Finally, U.S. employees assigned overseas who receive housing allowances instead of government-furnished housing must normally locate their own housing and negotiate their own leases with local landlords. This can be quite confusing and burdensome to newly arrived employees who must find suitable housing for their families in a short time in a country with a different language, laws, and customs. The employee often has little choice but to rely on the expertise of local employees or on what little "institutional knowledge" other employees at the post have acquired of what is expected and acceptable in a lease.

The subcommittee found that our Embassy in Lima had helped solve this problem by hiring a local attorney part time to assist U.S. employees in local legal matters such as advising them on the signing of leases. The attorney reviews the employees' lease before it is signed and discusses its provisions with both the employee and the landlord to make sure that both parties understand and are in agreement with what it contains. The Embassy believes that this has been a very successful program. The attorney also gives advice to employees on such things as tax exemptions and traffic violations.

The committee believes that U.S. employees assigned to posts in countries with different languages, laws, and local customs should not be expected to negotiate and sign legally binding leases without professional assistance. The subcommittee was impressed with the program in Lima and the committee recommends that the Department of State conduct a survey of other posts to determine whether similar programs should be established at those posts.

VII. Conclusion

[redacted] As outlined in this report there are a number of reasons for this poor record. It would be inaccurate to suggest that the Department has either been unaware of these problems or has done nothing to make improvements.

The failure by the Department to adequately manage the $3 billion overseas property inventory and to efficiently and economically provide housing for the thousands of U.S. Government employees stationed at posts located throughout the world not only adversely affects the Department's operational efficiency but also results in millions of taxpayer dollars being poured down the drain. Therefore, [redacted]

The Department has assured the committee that it intends to take all the necessary steps to insure proper management of U.S. Government property overseas. We hope that the Department will take the promised action and the committee will review the progress that is being made in this area.

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ROUTING AND RECORD SHEET

DD/A Registry

File Buildings + Grounds 1-1

SUBJECT: (Optional)

Report on Overseas Real Property Management

FROM: [redacted]
Assistant for Information, DDA
[redacted]

EXTENSION: [redacted]

NO.: DD/A Registry 78-4103

DATE: 25 OCT 1978

TO: (Officer designation, room number, and building)	DATE RECEIVED	DATE FORWARDED	OFFICER'S INITIALS
1. ~~SSA/DDA~~			
2.			
3. EO/DDA		10/26	S
4.			
5. ADDA		31 OCT 1978	M
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7. DDA		has seen	
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COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

Attached is a report on overseas real property management which resulted from an investigation by Jack Brooks' Government Operations Committee and Legislation and National Security Subcommittee. It is interesting from two standpoints:

a. It is a good insight into how a committee of Congress can work with or against an agency over which it has oversight jurisdiction.

b. More importantly, the report contains directives to the State Department and to "other U.S. government agencies" which at least by implication involve CIA.

I have asked OLC for an interpretation as to what affect the directives in this report may have on the Agency. I remember from my days with OLC that we dealt with Jack Brooks' subcommittee and we obtained some agreements, one of which was that CIA's name would not appear in print. I am not sure that those agreements extend to the directives contained in the report.

I have also asked OLC to send a copy to DDO/CCS, which was involved in the investigation on behalf of the Agency.

[redacted]

cc: D/Log
Att: a/s

AI/DDA/[redacted]ydc (24 Oct 78)
Distribution:
Orig PRS - Addressee w/att
1 - DDA Subject
1 - AI Subject (Legislation)
1 - AI Chrono
1 - D/Logistics

Att: Subject report dtd 2 October 78, House Report No. 95-1676

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